Bank Sohar SAOG

BANK SOHAR SAOG

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2015

Registered office and principal place of business:

Bank Sohar Building
P.O.Box 44, Hai Al - Mina
PC 114, Muscat
Sultanate of Oman

Bank Sohar SAOG

Board of Directors Report for the nine months period ended 30th September 2015

Our Valued Shareholders,

On behalf of the Board of Directors of Bank Sohar (SAOG), I am pleased to present the results of Your Bank as at 30th September 2015.

Gross loans and advances of Your Bank increased from OMR 1.449 billion as on 30th Sept 2014 to OMR 1.707 billion as at 30th Sept 2015 registering an increase of 17.81%. Customer deposits increased to OMR 1.565 billion as at 30th Sept 2015, as compared to OMR 1.341 billion registered as at 30th Sept 2014 with increase of 16.70%. Your Bank's market share of Private Sector Credit increased to 9.74% as at end of August-15 compared to 9.15% as at Dec 2014, while the Private Sector Deposit share increased to 8.41% as at end of Aug 2015 compared to 7.88% as at end of Dec 2014.

During the third quarter of 2015 the gross loans and advances of Your Bank increased by a substantial OMR 87 million which will help the bank in getting additional revenue in future. Your Bank's net profit growth in third quarter has improved marginally by 1.84% from OMR 7.285 million in Q2 2015 to OMR 7.419 million in Q3 2015. During the third quarter, Net Interest income grew by 4.62% from OMR 12.382 million in second quarter of 2015 to OMR 12.954 million and the operating income remained flat at OMR 18.140 million in third quarter of 2015 compared to OMR 18.100 million as of second quarter.

The year 2015 is a challenging year for Your Bank amidst current market environment, falling oil prices and its impact on the stock market, tight liquidity position, etc. While Your bank has achieved a positive growth in the earning assets, the Net Profit made during the nine months period ended 30th Sept 2015 was OMR 21.292 million as compared to a Net Profit of OMR 23.749 million during the same period of the last year. During the last two quarters, the net profit has been improving. Your Bank is focused on its strategy and continuing its efforts to deliver and achieve sustainable earnings and growth.

Your Bank was able to post a higher Net Interest Income by 3.64% for the nine months period of the current year at OMR 36.716 million compared to OMR 35.425 during the corresponding period of last year in spite of certain changes to existing regulations. Due to the reduced opportunities in the stock market, the operating income declined by 1.54% from OMR 53.262 million during the nine months period of last year to OMR 52.441 million during nine months period of the current year. The operating cost increased by 8.38% from OMR 22.872 million during the nine months period of last year to OMR 24.788 million during the same period of the current year which was mainly due to increase in staff strength by 76 (11.93%) primarily to improve business and services. The investment in people would augur well for Your Bank in quarters ahead.

Your Bank sponsored two key events during the third quarter, one of which was the 3rd e-Commerce Conference which focused on areas related to Cyber Crime organized by Dhofar Branch of the Oman Chamber of Commerce and Industry (OCCI) and the second one was the 'In-Country Value Conference 2015'organized by Business Process Outsourcing Services LLC in association with the Oman Chamber of Commerce and Industry (OCCI) focusing on economic diversification and retaining spends within the country.

During the third quarter, Your Bank celebrated the holy month of Ramadan with current and potential clients through a unique social media competition to engage the local Facebook community and to further solidify its position on social media platforms as a medium through which they can interact with Your Bank. The month of Ramadan also witnessed Bank Sohar host and sponsor a number of Iftar events across the Sultanate, in addition to sponsoring Qaranqasho celebrations.

On the Corporate Social Responsibility (CSR) front, Your Bank continued placing great emphasis on the wellbeing of the community through its comprehensive CSR programme. This programme has, over the last quarter, seen Your Bank make significant direct donations and essential equipment contributions towards various charitable organisations.

Your Bank is dedicated to promoting sustainable development in line with policies of the Sultanate of Oman. As part of its ongoing efforts to encourage Small and Medium Enterprises (SMEs) and to support the In-Country Value in the Sultanate, we have realigned the SME unit with a business focus to address the banking requirements of SMEs, Omani Entrepreneurs and other businesses of Omanis. The policies and processes were also realigned to provide effective turnaround time and credit review of the entities. Since inception of the SME friendly guidelines, Your Bank has supported over 100 entrepreneurs/SME's in 2015 by structuring financial aid to meet their requirements.

Islamic Banking as an industry continues to record impressive growth in Oman. Sohar Islamic had also posted a significant growth in third quarter of 2015. It is growing its corporate and retail book albeit facing stiff competition from other Islamic Banks and windows. Sohar Islamic continues to conduct various Shariah training programs to their staff. Our attractive program based products for SME sector underpinned by quick turnaround processing time continues to experience strong acceptability among SME clients. We always strive to bring in the latest technology to improve our customer service. During this quarter, an experienced and senior Omani of Your Bank has been made the Head of Sohar Islamic.

Despite challenging environment, Oman Development Fund, founded by Your Bank, is doing well, with its first investment in the iron and steel sector achieving capital closure.

On behalf of the Board of Directors, management and staff of the Bank, I would like to thank the Central Bank of Oman and the Capital Market Authority for their astute regulation and guidance. Above all, I would like to express my humble gratitude and pay tribute to His Majesty Sultan Qaboos Bin Said for his wise and discerning leadership that has firmly set Oman on the path of progress and sustainable development.

Abdullah Humaid Al Mamary
Chairman

STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2015

	Note	30 September 2015 RO'000	31 December 2014 RO'000
ASSETS			
Cash and balances with Central Bank	*B1*	**73,641**	218,684
Due from banks and other money market placements	*B2*	**132,289**	153,562
Loans, advances and financing (net)	*B3*	**1,670,256**	1,423,277
Investment securities	*B4*	**309,008**	240,512
Property, equipment and fixtures	*B5*	**13,270**	12,804
Investment properties	*B6*	**2,900**	2,900
Other assets	*B7*	**25,350**	23,656
		2,226,714	2,075,395
LIABILITIES			
Due to banks and other money market borrowings	*B8*	**326,539**	244,004
Customers' deposits	*B9*	**1,564,916**	1,551,696
Other liabilities	*B10*	**33,629**	29,180
Subordinated loans	*B11*	**50,415**	51,232
Compulsorily convertible bonds	*B12*	**7,288**	7,207
		1,982,787	1,883,319
SHAREHOLDERS' EQUITY			
Share capital	*B13*	**144,144**	114,400
Share Premium	*B13*	**16,702**	-
Legal reserve	*B14*	**13,815**	13,815
General reserve	*B15*	**988**	988
Fair value reserve	*B16*	**(9,585)**	(5,138)
Subordinated loans reserve	*B11*	**24,167**	24,167
Retained earnings		**53,696**	43,844
		243,927	192,076
		2,226,714	2,075,395
Net assets per share (in baizas)	*B17*	**169.23**	167.89
CONTINGENT LIABILITIES	*B18*	**384,043**	343,445
COMMITMENTS	*B18*	**335,915**	233,006

The financial statements were approved and authorized for issue by the Board of Directors on 28th October, 2015 and signed on their behalf by:

Chairman | *Board member*

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2015

	Note	9 Months ended 30 September 2015 RO'000	9 Months Ended 30 September 2014 RO'000	3 Months ended 30 September 2015 RO'000	3 Months ended 30 September 2014 RO'000
Interest income	*C1*	**54,851**	55,127	**19,228**	18,682
Interest expense	*C2*	**(18,135)**	(19,702)	**(6,274)**	(6,306)
Net interest income		**36,716**	35,425	**12,954**	12,376
Net income from Islamic financing and investing activities		**1,611**	1,212	**606**	471
Other operating income	*C3*	**14,114**	16,625	**4,580**	5,148
OPERATING INCOME		**52,441**	53,262	**18,140**	17,995
OPERATING EXPENSES					
Staff costs		**(15,392)**	(14,131)	**(5,482)**	(4,992)
Other operating expenses	*C4*	**(8,136)**	(7,395)	**(2,799)**	(2,453)
Depreciation	*B5*	**(1,260)**	(1,346)	**(427)**	(445)
		(24,788)	(22,872)	**(8,708)**	(7,890)
OPERATING PROFIT		**27,653**	30,390	**9,432**	10,105
Impairment allowance on portfolio basis	*B3*	**(2,253)**	(2,152)	**(828)**	(743)
Impairment allowance on specific basis	*B3*	**(1,380)**	(1,735)	**(173)**	(847)
NET PROFIT BEFORE TAX		**24,020**	26,503	**8,431**	8,515
Income tax expense	*C5*	**(2,728)**	(2,754)	**(1,012)**	(919)
NET PROFIT FOR THE PERIOD		**21,292**	23,749	**7,419**	7,596
Other comprehensive income					
Net changes in fair value of available for sale financial assets net of income tax (re-classifiable to profit or loss)		**(4,447)**	(370)	**(5,080)**	804
Other comprehensive income for the period net of income tax		**(4,447)**	(370)	**(5,080)**	804
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**16,845**	23,379	**2,339**	8,400
Basic earnings per share for the period – **in baizas**	*C6*	**15.801**	19.371	**5.054**	6.196
Basic earnings per share for the period (annualized) – **in baizas**	*C6*	**21.125**	25.898	**20.051**	24.580
Diluted earnings per share for the period – **in baizas**	*C6*	**15.398**	19.005	**5.026**	6.082
Diluted earnings per share for the period (annualized) – **in baizas**	*C6*	**20.587**	25.410	**19.939**	24.128
Net profit/(loss) for the period					
Conventional banking		**20,896**	23,987	**7,326**	7,724
Islamic banking		**396**	(238)	**93**	(128)
Total		**21,292**	23,749	**7,419**	7,596

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2015

	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	General reserve RO'000	Fair value reserve RO'000	Subordinated loans reserve RO'000	Retained earnings RO'000	Total RO'000
Balance as at 1 January 2014	110,000	-	10,827	1,063	(467)	14,167	35,679	171,269
Total comprehensive income for the period								
Net profit for the period	-	-	-	-	-	-	23,749	23,749
Other comprehensive income for the period:								
Net change in fair value of available for sale investments – net of tax	-	-	-	-	3,969	-	-	3,969
Release on sale of available for sale investments	-	-	-	-	(4,339)	-	-	(4,339)
Total comprehensive income for the period	-	-	-	-	(370)	-	23,749	23,379
Issue of stock dividend for the year 2013	4,400	-	-	-	-	-	(4,400)	-
Dividend paid for the year 2013	-	-	-	-	-	-	(4,400)	(4,400)
Balance as at 30 September 2014	114,400	-	10,827	1,063	(837)	14,167	50,628	190,248
Balance as at 1 October 2014	114,400	-	10,827	1,063	(837)	14,167	50,628	190,248
Total comprehensive income for the period								
Net profit for the period	-	-	-	-	-	-	6,129	6,129
Other comprehensive income for the period:								
Net change in fair value of available for sale investments – net of tax	-	-	-	-	(4,289)	-	-	(4,289)
Release on sale of available for sale investments	-	-	-	-	(12)	-	-	(12)
Total comprehensive income for the period	-	-	-	-	(4,301)	-	6,129	1,828
Transfers	-	-	2,988	(75)	-	10,000	(12,913)	-
Balance as at 31 December 2014	114,400	-	13,815	988	(5,138)	24,167	43,844	192,076
Balance as at 1 January 2015	**114,400**	**-**	**13,815**	**988**	**(5,138)**	**24,167**	**43,844**	**192,076**
Total comprehensive income for the period								
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**21,292**	**21,292**
Other comprehensive income for the period:								
Net change in fair value of available for sale financial assets	**-**	**-**	**-**	**-**	**(4,391)**	**-**	**-**	**(4,391)**
Release on sale of available for sale financial assets	**-**	**-**	**-**	**-**	**(56)**	**-**	**-**	**(56)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(4,447)**	**-**	**21,292**	**16,845**
Issue of rights shares	**22,880**	**-**	**-**	**-**	**-**	**-**	**-**	**22,880**
Share premium	**-**	**16,702**	**-**	**-**	**-**	**-**	**-**	**16,702**
Dividend paid for the year 2014	**-**	**-**	**-**	**-**	**-**	**-**	**(4,576)**	**(4,576)**
Issue of stock dividend for the year 2014	**6,864**	**-**	**-**	**-**	**-**	**-**	**(6,864)**	**-**
Balance as at 30 September 2015	**144,144**	**16,702**	**13,815**	**988**	**(9,585)**	**24,167**	**53,696**	**243,927**

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2015

	30 September 2015 RO'000	30 September 2014 RO'000
OPERATING ACTIVITIES		
Net profit for the period before tax	**24,020**	26,503
Adjustments for:		
Depreciation	**1,260**	1,346
Impairment for credit losses and investment	**3,633**	3,887
Profit on sale of investment securities	**(518)**	(3,404)
Profit on sale of property, equipment and fixtures	**(12)**	-
Net gains from held for trading investment securities	**(22)**	-
Interest on investment	**(1,872)**	(1,005)
Interest accrued on CCB and SUBDEBT	**2,672**	-
Operating profit before changes in operating assets and liabilities	**29,161**	27,327
Due from banks and money market placements	**(23,100)**	74,209
Loans, advances and financing	**(250,794)**	(176,846)
Other assets	**(1,675)**	(10,365)
Due to banks and other money market borrowings	**(32,747)**	155,920
Customers' deposits	**13,220**	(41,629)
Other liabilities	**5,361**	4,111
Cash (used in)/from operating activities	**(260,574)**	32,727
Income tax paid	**(3,451)**	(3,225)
Net cash (used in)/from operating activities	**(264,025)**	29,502
INVESTING ACTIVITIES		
Purchase of investments (net)	**(90,943)**	(41,017)
Proceeds from sale/redemption of investments	**19,057**	32,956
Purchase of property, equipment and fixtures	**(1,726)**	(1,171)
Proceeds from sale of property, equipment and fixtures	**12**	-
Interest received on investments	**1,872**	1,005
Net cash used in investing activities	**(71,728)**	(8,227)
FINANCING ACTIVITIES		
Issue of rights shares (net of Issue expenses)	**22,880**	-
Dividends paid	**(4,576)**	(4,400)
Interest paid on CCB and SUBDEBT	**(3,408)**	-
Share premium	**16,702**	-
Net cash (used in)/from financing activities	**31,598**	(4,400)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(304,155)**	16,875
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR	**444,274**	216,674
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**140,119**	233,549
REPRESENTING:		
Cash and balances with Central Banks	**73,641**	51,533
Due from banks and other money market lending	**109,231**	42,782
Investments securities	**154,816**	153,979
Due to banks and other money market borrowings	**(197,569)**	(14,745)
	140,119	233,549

A1 Legal status and principal activities

Bank Sohar SAOG ("the Bank") was established in the Sultanate of Oman on 4 March 2007 as a public joint stock company and is primarily engaged in commercial, investment and Islamic banking through a network of twenty six commercial banking branches and 4 Islamic banking branches within the Sultanate of Oman. The Bank operates under commercial, investment and Islamic banking licences issued by the Central Bank of Oman (CBO) and are covered by its deposit insurance scheme. The Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman. The Bank has its primary listing on the Muscat Securities Market.

With effect from 30 April 2013, the Bank obtained a license to operate an Islamic Banking Window ("Sohar Islamic"). Sohar Islamic offers a full range of Islamic banking services and products. The principal activities of the window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah, Istisna'a, Salam and providing commercial banking services, investment and other activities permitted under Islamic Banking Regulatory Framework (IBRF).

The Bank employed 713 employees as of 30 September 2015 (31 December 2014: 650).

A2 Basis of preparation

Since these are interim condensed financial statements, they do not contain all information and disclosures for the full financial statements prepared in accordance with IFRS and should be read in conjunction with the Bank's annual financial statements as at 31 December 2014.

A2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), requirements of the Oman Commercial Companies Law of 1974, as amended, and the disclosure requirements of the Capital Market Authority and the applicable regulations of the CBO.

In accordance with the Royal Decree 69/2012 regarding the amendment in the Banking Law 2000, CBO has issued circular no. IB - 1 under which a complete Islamic Banking Regulatory Framework (IBRF) has been promulgated. The framework identifies the permissible form of trade-related modes of financing including purchase of goods by banks from their customers and immediate resale to them at appropriate profit in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such, but are restricted to the amount of facility actually utilized and the appropriate portion of profit thereon.

The financial results of the Islamic Banking Window have been reflected in these financial statements for reporting purposes after eliminating inter branch transactions / balances.

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, held for trading and available for sale financial assets which have been measured at fair value.

A2.3 Functional and presentation currency

These financial statements are presented in Rial Omani, which is the Bank's functional currency and also in US Dollars, for the convenience of readers. The US Dollar amounts, which are presented in these financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385 (RO 1 = 1000 baizas). All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands.

A2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that effect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on industry data and various other factors that are believed by the Bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Estimates considered by the Bank to have a significant risk of material adjustment in subsequent periods are discussed in note A4.

A2 Basis of preparation (continued)

A2.5 Standards, amendments and interpretations effective in 2015 and relevant for the Bank's operations

For the period ended 30 September 2015, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2015.

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Bank's financial statements.

A2.6 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning after 1 Jan 2015 or later periods, but the Bank has not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 30 September 2015:

- Amendments to IAS 27, 'Separate financial statements' on the equity method (Annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal. (Annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts. (Annual periods beginning on or after 1 January 2016)
- IFRS 15 'Revenue from contracts with customers'(Annual periods beginning on or after 1 January 2017)
- IFRS 9 'Financial instruments'(Annual periods beginning on or after 1 January 2018)

A3 Significant accounting policies

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements, unless otherwise stated.

A3.1 Foreign currency translation

Transactions in foreign currencies are translated into functional currency at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period. The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value was determined. Foreign currency differences arising on retranslation are recognized in the statement of comprehensive income, except for non-monetary financial assets, such as equities classified as available-for-sale, which are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

A3 Significant accounting policies (continued)

A3.2 Revenue and expense recognition

A3.2.a Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- Interest on available for sale investment securities on an effective interest rate basis; and
- Fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

Interest income which is doubtful of recovery is included in impairment allowance and excluded from income until it is received in cash.

A3.2.b Fair value gains and losses

Fair value changes on derivatives held for risk management purposes and available for sale financial assets are presented in the statement of other comprehensive income.

Net income from financial assets at fair value through profit or loss, including all realised and unrealised fair value changes, interest, dividend and foreign exchange differences are presented in the income statement.

A3.2.c Dividend income

Dividend income is recognized when the right to receive dividend is established.

A3.2.d Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income include account servicing fees, credit related fees, advisory fees, administration fees and other management fees, sales commission, placement fees and syndication fees. These are recognised as the related services are performed.

A3.2.e Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are equivalent to the amortised value of the future liabilities which is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

A3.2.f Offsetting of income and expense

Income and expenses are presented on a net basis only when permitted by the IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

A3.2.g Temporary significant influence

The Bank is exempt from applying the equity method when significant influence over an associate is intended to be temporary. The temporary significant influence infers that there is an evidence that an associate is acquired with the intention to reduce its stake that it no more has a significant influence on the investee company by soliciting investors to inject fresh capital to the investee company. The investment is classified as available for sale in the financial statements.

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities

A3.3.a Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term.

Loans and receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortised cost using the effective interest method less specifically identified and collective allowance for impairment and recognised in the statement of comprehensive income as ‘impairment allowance’. Specific provisions are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce the impaired loans and receivables to their recoverable amounts. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers. Interest on loans is included in the statement of comprehensive income and is reported as ‘interest income’.

Held to maturity financial assets

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held to maturity investments is included in the statement of comprehensive income and reported as ‘interest income’. In the case of impairment, the impairment loss has been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as ‘impairment on investments’. Held to maturity investments includes corporate bonds and other debt securities.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of other comprehensive income, except for impairment losses tested annually and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of other comprehensive income is recognised in the statement of comprehensive income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income in ‘other operating income’ when the Bank’s right to receive payment is established.

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.b Recognition

The Bank initially recognises loans and advances, deposits; debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A3.3.c Derecognition

The Bank derecognises a financial asset when the contractual rights to receive the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

A3.3.d Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable rights must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and the counter party.

A3.3.e Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

A3.3.f Fair value measurement

A number of the Bank’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows. Investments having short term maturities are not discounted.

The fair value of loans and advances is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty when appropriate.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

A3.3.g Identification and measurement of impairment of financial assets

(i) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events as well as considering the guidelines issued by the CBO:

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.g Identification and measurement of impairment of financial assets (continued)

(i) Assets carried at amortised cost *(continued)*

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the Bank.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(ii) Assets classified as available-for-sale

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Bank uses the criteria referred to in (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.h Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of upto three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

A3.3.i Repurchase and resale agreements

Securities sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counterparty liability for amounts received under these agreements is included in 'due to banks and other money market borrowings'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in 'due from banks and other money market lendings'. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

A3.3.j Acceptances

Acceptances are disclosed on the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

A3.3.k Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or trading liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment of changes in their fair value depends on their classification into the following categories:

Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in statement of comprehensive income together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in hedging reserve. The amount recognised in other comprehensive income is reclassified to comprehensive income as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in statement of comprehensive income.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then the hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognized in other comprehensive income from the period when the hedge was effective is reclassified from the equity to statement of comprehensive income as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to statement of comprehensive income as a reclassification adjustment.

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

***A3.3.k Derivatives held for risk management purposes* (continued)**

Other non-trading derivative

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in statement of comprehensive income.

A3.4 Property, equipment and fixtures

Items of property, equipment and fixtures are measured at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset and preparing the asset for its intended use. Depreciation is provided on a straight-line basis over the estimated useful lives of property, equipment and fixtures, except freehold land. The estimated useful lives for the current period are as follows:

	Years
Motor vehicles	5
Furniture and fixtures	6-7
Office equipment	6-7
Production software	10

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

A3.5 Investment properties

Investment properties comprise plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008. These are currently held for an undetermined business use and not occupied by the Bank. These are carried at the average valuation of the two professional valuators carried out during 2008. Subsequent to initial measurement these properties are carried at cost less accumulated impairments, if any.

A3.6 Deposits, debt securities issued and subordinated liabilities

All money market and customer deposits are initially measured at fair value plus transaction cost and subsequently carried at amortised cost. Deposits, debt securities issued and subordinated liabilities are measured at their amortized cost using the effective interest method. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

A3.7 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

A3 Significant accounting policies (continued)

A3.7 Taxation (continued)

Deferred tax assets/liabilities are calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A3.8 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

A3.9 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or sell the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A3.10 Leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

A3.11 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment, when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortized value or present value of the expected payment arising from the financial guarantee as the case may be is included in the other liabilities.

A3.12 Employee benefits

A3.12.a Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the statement of comprehensive income as incurred.

A3.12.b Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A3 Significant accounting policies (continued)

A3.13 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Annualised EPS is calculated by annualizing the basic EPS for the whole year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes or similar instruments.

A3.14 Corresponding figures

The corresponding figures included for comparative purposes have been reclassified to conform to the presentation in the current year.

A3.15 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's CEO (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

A3.16 Directors' remuneration and sitting fees

The Directors' remuneration is governed as set out in the Commercial Companies Law, regulations issued by the Capital Market Authority and the Articles of Association of the Company.

The Annual General Meeting determines and approves the remuneration and the sitting fees for the Board of Directors and its sub-committees provided such fees, in accordance with Article 106 of the Commercial Companies Law of 1974 as amended, shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees does not exceed RO 200,000. The sitting fee for each Director does not exceed RO 10,000 in one year.

A4 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The Bank's significant accounting estimates are on:

A4.1 Impairment losses on loans and advances

The Bank follows IFRS and CBO guidelines in assessing the impairment against non-performing loans. The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in group of assets with similar risk characteristics to determine whether collective impairment loss to be made.

A4 Critical accounting estimates and judgements (continued)

A4.1 Impairment losses on loans and advances (continued)

In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro economic conditions.

A4.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Bank uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Bank uses expected cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

A4.3 Impairment of available-for-sale equity investments

The Bank determines annually that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Bank evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

A4.4 Fair value estimation of unquoted securities

In cases where the underlying assets are fair valued such as private equity funds, management uses net assets value. Management believe that net assets values of these investments are representative of their fair values as the majority of the underlying assets are fair valued and the reported net assets of those entities takes into account the updated fair values changes.

B1 Cash and balances with central bank

	30 September 2015 RO'000	31 December 2014 RO'000
Cash	**13,962**	12,236
Capital deposit with CBO	**504**	508
Balance with CBO	**59,175**	205,940
	73,641	218,684

The capital deposit with the CBO cannot be withdrawn without the approval of CBO.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2015 (continued)

B2 Due from banks and other money market placements

	30 September 2015 RO'000	31 December 2014 RO'000
Foreign currency:		
Money market placements	**114,680**	96,198
Lending to banks	**8,482**	44,783
Demand balances	**9,169**	12,805
	132,331	153,786
Impairment allowance on portfolio basis on lending to banks	**(42)**	(224)
Net due from Banks and other money market placements	**132,289**	153,562

The movement in the impairment allowance is as analysed below:

	30 September 2015 RO'000	31 December 2014 RO'000
Impairment allowance on portfolio basis on lending to banks:		
Balance at beginning of the year	**224**	323
Provided/(released) during the period (net)	**(182)**	(99)
Balance at the end of the period	**42**	224

B3 Loans, advances and financing - net

	30 September 2015 RO'000	31 December 2014 RO'000
Corporate loans	**1,167,592**	946,872
Retail loans	**539,221**	507,890
Gross loans, advances and financing	**1,706,813**	1,454,762
Impairment allowance on portfolio basis	**(20,753)**	(18,319)
Impairment allowance on specific basis (including reserved interest)	**(15,804)**	(13,166)
Net loans and advances	**1,670,256**	1,423,277

Gross loans and advances include RO 61,376,284 (2014: RO 38,319,042) through Sohar Islamic financing activities, under Islamic mode of financing.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2015 (continued)

B3 Loans, advances and financing - net (continued)

Loans, advances and financing comprise:

	30 September 2015 RO'000	31 December 2014 RO'000
Loans	**1,526,765**	1,321,245
Overdrafts	**69,541**	56,094
Loan against trust receipts	**86,842**	52,042
Bills discounted	**23,665**	25,381
Gross loans and advances	**1,706,813**	1,454,762
Impairment allowance on portfolio basis	**(20,753)**	(18,319)
Impairment allowance on specific basis (including reserve interest)	**(15,804)**	(13,166)
Net loans and advances	**1,670,256**	1,423,277

As per the CBO requirements, the movement in the impairment allowance is as analysed below:

Loan loss provision	30 September 2015 RO'000	31 December 2014 RO'000
Impairment allowance on portfolio basis		
Balance at beginning of the year	**18,319**	16,093
Provided during the period (net)	**2,434**	2,226
Balance at the end of the period	**20,753**	18,319
Impairment allowance on specific basis		
1) Loan loss provision		
Balance at beginning of the year	**9,436**	6,228
Provided during the period	**4,588**	5,678
Written back due to recovery	**(3,208)**	(2,016)
Written off during the period	**(31)**	-
Transfer from/(to) other assets	**230**	(454)
Transfer from/(to) memorandum accounts	**228**	-
Balance at the end of the period	**11,243**	9,436
2) Reserved interest		
Balance at beginning of the year	**3,730**	2,673
Reserved during the period	**1,352**	1,367
Written back due to recovery	**(521)**	(310)
Balance at end of the period	**4,561**	3,730
Total	**15,804**	13,166

Impairment allowance on portfolio basis is established to meet the credit risks inherent within the loans, advances and financing on a portfolio basis.

All loans and advances require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained by the Bank to comply with rules, regulations and guidelines issued by CBO against loans and advances which are impaired. As of 30 September 2015, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 24,740,251 (Dec 2014 - RO 21,934,854).

B4 Investment Securities

	30 September 2015 RO'000	31 December 2014 RO'000
Held for trading investments	**45,644**	44,911
Available for sale investments	**211,754**	188,788
Held to maturity investments	**51,610**	6,813
	309,008	240,512

B4.a Held-for-trading investments comprise:

	30 September 2015 RO'000	31 December 2014 RO'000
Government development bonds – Oman	**39,382**	38,914
Sukuk trust certificates	**5,411**	5,997
Mutual Funds	**851**	-
	45,644	44,911

B4.b Available for sale investments comprise:

	Carrying/ fair value 30 September 2015 RO'000	Cost 30 September 2015 RO'000	Carrying/ fair value 31 December 2014 RO'000	Cost 31 December 2014 RO'000
Unquoted securities	**16,884**	**17,180**	1,297	1,500
Quoted securities	**40,869**	**26,214**	33,511	38,651
Treasury bills	**154,001**	**153,999**	153,980	153,994
	211,754	**197,393**	188,788	194,145

Oman Development Fund SAOC ("Fund") was incorporated on 7 May 2014 under the license no. 1196427 with the Bank playing the role of the founder shareholder. The purpose of the Fund is to identify mid-segment industrial and manufacturing sectors that leverage Oman's unique advantages such as its infrastructure, tax treaties, geography and natural mineral resources for potential investment opportunities. The Bank is currently holding 16.9% (2014 : 49.9%) stake in the Fund. As per the Private Placement Memorandum (PPM), Bank Sohar SAOG will hold 5% of the paid-up capital of the Fund and it also envisages that it will enter into an Investment Management Agreement (IMA) with the Company.

B4.c Held-to-maturity investments comprise:

	30 September 2015 RO'000	31 December 2014 RO'000
Quoted	**44,679**	-
Unquoted	**6,931**	6,813
	51,610	6,813

B5 Property, Equipment and Fixtures

	Freehold land RO'000	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicles RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
1 January 2015	**4,100**	**8,678**	**3,889**	**4,948**	**726**	**1,694**	**24,035**
Additions / reclassifications	**-**	**530**	**663**	**249**	**66**	**218**	**1,726**
Transfers / disposals	**-**	**-**	**-**	**-**	**(39)**	**-**	**(39)**
As at 30 September 2015	**4,100**	**9,208**	**4,552**	**5,197**	**753**	**1,912**	**25,722**
Accumulated depreciation:							
1 January 2015	**-**	**(4,551)**	**(2,614)**	**(3,561)**	**(505)**	**-**	**(11,231)**
Depreciation and amortisation	**-**	**(564)**	**(302)**	**(315)**	**(79)**	**-**	**(1,260)**
Disposals	**-**	**-**	**-**	**-**	**39**	**-**	**39**
As at 30 September 2015	**-**	**(5,115)**	**(2,916)**	**(3,876)**	**(545)**	**-**	**(12,452)**
Net book value at 30 September 2015	**4,100**	**4,093**	**1,636**	**1,321**	**208**	**1,912**	**13,270**

	Freehold land RO'000	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicles RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
At 1 January 2014	4,100	7,736	3,536	4,710	726	1,947	22,755
Additions/Reclassifications	-	942	435	242	-	(253)	1,366
Disposals	-	-	(82)	(4)	-	-	(86)
At 31 December 2014	4,100	8,678	3,889	4,948	726	1,694	24,035
Accumulated depreciation:							
At 1 January 2014	-	(3,906)	(2,273)	(2,937)	(405)	-	(9,521)
Depreciation and amortisation	-	(645)	(415)	(628)	(100)	-	(1,788)
Disposals	-	-	74	4	-	-	78
As at 31 December 2014	-	(4,551)	(2,614)	(3,561)	(505)	-	(11,231)
Net book value at 31 December 2014	4,100	4,127	1,275	1,387	221	1,694	12,804

B6 Investment properties

Investment properties represent two plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008. The Bank has recorded the land based on the average valuation carried out during 2008 by two professional valuators. The plots of land are currently held vacant. The fair value of these properties as at 31 December 2014 is RO 3.053 million.

B7 Other assets

	30 September 2015 RO'000	31 December 2014 RO'000
Acceptances	**14,819**	11,874
Prepayments	**4,409**	3,202
Deferred tax asset (note C5)	**178**	-
Receivables	**3,168**	2,975
Other	**2,776**	5,605
	25,350	23,656

B8 Due to banks and other money market borrowings

	30 September 2015 RO'000	31 December 2014 RO'000
Local currency:		
Demand balances	**-**	1,130
Money market borrowings	**56,408**	28,049
	56,408	29,179
Foreign currency:		
Demand balances	**2,661**	-
Money market borrowings	**170,960**	214,825
Syndicated Borrowings	**96,510**	-
	270,131	214,825
	326,539	244,004

B9 Customers' deposits

	30 September 2015 RO'000	31 December 2014 RO'000
Term deposits	**718,176**	790,619
Demand deposits	**563,358**	501,511
Saving deposits	**266,346**	249,485
Margin deposits	**17,036**	10,081
	1,564,916	1,551,696

B9 Customers' deposits (continued)

	30 September 2015 Conventional banking RO'000	30 September 2015 Islamic banking RO'000	30 September 2015 Total RO'000	31 December 2014 Conventional banking RO'000	31 December 2014 Islamic banking RO'000	31 December 2014 Total RO'000
Retail customers:						
Term deposits	**13,374**	**205**	**13,579**	16,007	256	16,263
Demand deposits	**14,730**	**1,418**	**16,148**	19,397	1,167	20,564
Saving deposits	**250,640**	**9,441**	**260,081**	241,671	7,814	249,485
Margin accounts	**-**	**30**	**30**	-	-	-
Corporate customers:						
Term deposits	**691,253**	**13,344**	**704,597**	761,148	13,208	774,356
Demand deposits	**538,396**	**8,814**	**547,210**	473,095	7,852	480,947
Saving deposits	**-**	**6,265**	**6,265**	-	-	-
Margin deposits	**5,887**	**11,119**	**17,006**	3,632	6,449	10,081
	1,514,280	**50,636**	**1,564,916**	1,514,950	36,746	1,551,696

B10 Other liabilities

	30 September 2015 RO'000	31 December 2014 RO'000
Acceptances	**14,819**	11,874
Staff entitlements	**3,786**	4,052
Income tax payable	**2,720**	3,453
Deferred tax liability (note C5)	**-**	23
Other accruals and provisions	**12,304**	9,778
	33,629	29,180

B11 Subordinated Loans

The Bank raised an unsecured subordinated loan of RO 50 million in 2011 with a maturity period of 7 years. The instrument is unlisted, non-transferable, and non-negotiable and non-convertible with no early call option. The instrument carries a fixed rate of interest of 6.5%. Principal amount of the subordinated loan is repayable on maturity while interest is payable semi-annually. The Bank is required to create a subordinated loan reserve equal to 20% of the issue value annually from August 2012 up till the maturity of the subordinated loans. This reserve is created at the end of each financial year from retained earnings. Accordingly, during 2014 year a reserve of RO 10 million (2013: RO 10 million) was created. According to the Regulations of CBO, the subordinated loan as reduced by subordinated loan reserve is considered as Tier II capital for Capital Adequacy purposes.

B12 Compulsorily convertible bonds

The compulsorily convertible bonds of RO 7.150 million carrying an annual coupon rate of 4.5% were issued on 28 April 2013. These bonds will be converted into ordinary shares of the Bank in three equal instalments at the end of 3rd, 4th and 5th years from their dates of issue at a conversion price derived by applying a discount of 20% to the 3 months average share price of the Bank on the Muscat Securities Market prior to the date of conversion.

B13 Share capital

The authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (2014 - 2,000,000,000 of RO 0.100 each). The issued and paid up share capital of the Bank is 1,441,440,000 shares of RO 0.100 each (2014 - 1,144,000,000 shares of RO 0.100 each).

In the Annual general meeting held on 29th March 2015 the shareholders approved the board's recommendation to distribute 6% stock dividend resulting in issuance of 68,640,000 new shares.

On 15 April 2015, the Bank issued 228,800,000 shares through a rights issue to its existing shareholders at a price of 175 baiza per share consisting of nominal value of 100 baiza per share plus premium of 73 baiza and 2 baiza per share to cover the rights issue expenses. The rights issue was open for subscription from 15 April to 29 April 2015. The rights shares were listed on Muscat Securities Market on 12th May 2015. Out of the rights issue the Bank has assigned RO 2,000,000 to Sohar Islamic as additional capital.

Out of the proceeds of rights issue an amount of RO 22,880,000 was credited to the share capital account and RO 16,702,400 was credited to share premium account.

As of 30 September 2015, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members:

	Number of shares	*% Holding*
Oman Investment & Finance Co.SAOG	**220,695,576**	**15.31%**
The Royal Court of Affairs	**210,003,881**	**14.57%**

B14 Legal reserve

In accordance with the Commercial Companies Law of Oman of 1974, an annual appropriation of 10% of the net profit for the year is required to be made to legal reserve until such time that the accumulated reserve is equal to at least one third of the Bank's issued share capital.

B15 General reserve

During 2014, the Bank has created additional reserve of RO 338,000 (2013: RO 650,000) to cover the losses incurred by Sohar Islamic.

B16 Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of the available-for-sale investments net of applicable income tax until the investment is derecognised or sold.

B17 Net assets per share

The calculation of net assets per share is based on net assets of RO 243,927,000 as at 30 September 2015 (2014 - RO 192,076,000) attributable to ordinary shareholders on 1,441,440,000 ordinary shares, being the number of shares outstanding as at 30 September 2015 (2014: 1,144,000,000 ordinary shares).

B18 Contingent liabilities and commitments

B18.1 Contingent liabilities

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

	30 September 2015 RO'000	31 December 2014 RO'000
Guarantees	**343,912**	300,611
Documentary letters of credit	**40,131**	42,834
	384,043	343,445

B18.2 Commitments

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash obligations.

	30 September 2015 RO'000	31 December 2014 RO'000
Capital commitments	**842**	1,638
Credit related commitments	**335,073**	231,368
	335,915	233,006

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2015 (continued)

B19 RELATED PARTY TRANSACTIONS

In the ordinary course of business the Bank conducts transactions with certain of its directors, shareholders, senior management, Shari'a supervisory board, Shari'a reviewer and companies in which they have a significant interest. These transactions are conducted on an arm's length basis and are approved by the Bank's management and Board of Directors.

The aggregate amount of balances and the income and expenses generated with such related parties are as follows:

	30 September 2015 RO'000	31 December 2014 RO'000
Loans and advances (balance at end of period)	**30,778**	27,455
Loans disbursed during the period	**121,958**	102,885
Loans repaid during the period	**(116,004)**	(106,584)
Deposits (balance at end of period)	**10,947**	13,913
Deposits received during the period	**4,549**	14,425
Deposits paid during the period	**(6,270)**	(6,591)
Interest income (during the period)	**631**	846
Interest expense (during the period)	**102**	74
Senior management compensation		
Salaries and other short term benefits	**3,255**	4,323
Directors' sitting fees and remuneration	**201**	206
Shari'a Supervisory Board members	**35**	50

No specific provision has been established in respect of the loans given to related parties.

B20 Derivatives

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains or losses are included in the statement of comprehensive income. The derivative financial instruments used by the Bank are described below:

B20.1 Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

B20.2 Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall statement of financial position exposures.

The Bank uses forward foreign exchange contracts, to hedge against specifically identified currency risks. The Bank uses forward foreign exchange contracts to hedge against exposures in various currencies to meet the net open position limit as specified by CBO.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for special hedge accounting, the related derivatives are accounted for as trading instruments.

The table below shows the notional amounts of derivative financial instruments as on the reporting date, which are the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

		Notional amounts by term to maturity		
As at 30 September 2015	**Notional amount RO'000**	**Within 3 months RO'000**	**3 - 12 months RO'000**	**1 - 5 years RO'000**
Forward foreign exchange purchase contracts	**419,188**	**197,490**	**163,948**	**57,750**
Forward foreign exchange sales contracts	**439,009**	**228,337**	**163,419**	**47,253**

		Notional amounts by term to maturity		
As at 31 December 2014	Notional amount RO'000	Within 3 months RO'000	3 - 12 months RO'000	1 - 5 years RO'000
Forward foreign exchange purchase contracts	323,166	211,145	112,021	-
Forward foreign exchange sales contracts	320,728	211,120	109,608	-

C1 Interest income

	9 Months ended 30 September 2015 RO'000	9 Months ended 30 September 2014 RO'000	**3 Months ended 30 September 2015 RO'000**	3 Months ended 30 September 2014 RO'000
Loans and advances to customers	**51,975**	51,354	**17,893**	17,720
Due from banks and other money market placements	**1,004**	2,768	**516**	627
Investment securities	**1,872**	1,005	**819**	335
	54,851	55,127	**19,228**	18,682

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2015 (continued)

C2 Interest expense

	9 Months ended 30 September 2015 RO'000	9 Months ended 30 September 2014 RO'000	3 Months ended 30 September 2015 RO'000	3 Months ended 30 September 2014 RO'000
Customers' deposits	**13,413**	14,854	**4,423**	4,690
Subordinated debt	**2,431**	2,431	**819**	819
Due to banks and other money market borrowings	**2,050**	2,176	**951**	716
Compulsorily convertible bonds	**241**	241	**81**	81
	18,135	19,702	**6,274**	6,306

C3 Other operating income

	9 Months ended 30 September 2015 RO'000	9 Months ended 30 September 2014 RO'000	3 Months ended 30 September 2015 RO'000	3 Months ended 30 September 2014 RO'000
Fees and commission	**10,258**	9,950	**3,664**	3,214
Net gains from foreign exchange dealings	**1,811**	1,621	**736**	565
Dividend income	**1,414**	1,608	**221**	298
Net gains from held for trading investment securities	**22**	178	**13**	98
Net realised gains from available for sale investment securities	**518**	3,226	**85**	973
Profit on sale of assets	**12**	-	**-**	-
Bad debt recovery – written off earlier	**79**	42	**(139)**	-
	14,114	16,625	**4,580**	5,148

C4 Other operating expenses

	9 Months ended 30 September 2015 RO'000	9 Months ended 30 September 2014 RO'000	3 Months ended 30 September 2015 RO'000	3 Months ended 30 September 2014 RO'000
Operating and administration costs	**6,218**	5,573	**2,181**	1,914
Establishment cost	**1,682**	1,616	**578**	523
Directors' remuneration and sitting fees*	**201**	189	**19**	16
Shari'a supervisory board remuneration and sitting fees	**35**	17	**21**	-
	8,136	7,395	**2,799**	2,453

* includes remuneration of OMR 144,800 (2014: OMR 150,700) for the previous year paid during the current period.

C5 Income tax

a) Recognized in the statement of comprehensive income

	9 Months ended 30 September 2015 RO'000	9 Months ended 30 September 2014 RO'000
Tax expenses		
Current tax	**2,720**	2,765
Deferred tax (income) /expense	**8**	(11)
Total tax expenses	**2,728**	2,754

The Bank is liable to income tax for the year in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000.

b) Reconciliation

	9 Months ended 30 September 2015 RO'000	9 Months ended 30 September 2014 RO'000
Net profit before tax for the period	**24,020**	26,503
Income tax as per rates mentioned above	**2,883**	3,180
Tax impact of:		
- tax exempt income	**(155)**	(426)
Income tax expense	**2,728**	2,754

c) Deferred tax (liability)/ asset

	30 September 2015 RO'000	31 December 2014 RO'000
On comprehensive income items	**(223)**	(215)
On other comprehensive income items	**401**	192
	178	(23)

d) Tax assessment

The assessments of the Bank for the years 2007 to 2011 are completed and for the year 2012 to 2014 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance. The Bank is of the opinion that additional taxes, if any, related to the open tax years would not be significant to the financial position of the Bank as at 30 September 2015.

C6 Basic and Diluted Earnings Per Share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

	9 Months ended 30 September 2015 RO'000	9 Months ended 30 September 2014 RO'000
Net profit for the period	**21,292**	23,749
Weighted average number of shares of RO 0.100 each outstanding during the period (**in thousands**)	**1,347,547**	1,226,039
Basic earnings per share for the period (**in baizas**)	**15.801**	19.371
Basic earnings per share for the period annualized (**in baizas**)	**21.125**	25.898

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders (after adjusting for interest on the convertible bonds, net of tax) for the period by the weighted average number of ordinary shares including dilutive potential ordinary shares issued on the conversion of convertible bonds.

	9 Months ended 30 September 2015 RO'000	9 Months ended 30 September 2014 RO'000
Net profit for the period	**21,292**	23,749
Interest on convertible bonds, net of taxation	**212**	212
	21,504	23,961
Weighted average number of shares of RO 0.100 each outstanding during the period (**in thousands**)	**1,396,520**	1,260,748
Diluted earnings per share for the period (**in baizas**)	**15.398**	19.005
Diluted earnings per share for the period annualized (**in baizas**)	**20.587**	25.410

D Financial risk management

The primary objective of the risk management system is to safeguard the Bank's capital and its financial resources from various risks. The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. Such responsibility is discharged by the Board through a Risk Management Committee, constituted by the Board which is responsible for developing and monitoring the Bank's risk management policies in their specified areas. Risk Management Committee submits periodic reports to the Board, appraising on various aspects of risk and movement of risk profile of the Bank.

The Bank's risk management policies will focus on identification, measurement, monitoring and mitigation of risk, irrespective of its manner of manifestation. In this process, the Bank recognizes that dynamics of markets may necessitate decisions that may deviate on few occasions from the principles of CRM and to cater to such requirements, minimal and requisite level of flexibilities need to be built into the Bank's Risk Management policies, along with suitable and adequate safeguards/controls.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit department. Internal Audit department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

There are sub-committees at the management level for managing risks in businesses. Asset Liability Committee (ALCO) is for managing the risks in the balance sheet arising out of liquidity management, interest rates management as well as tenor of exposures taken by the Bank. Guidance is provided to the management by ALCO on managing these risks and risk appetite is articulated through various limits, ratios and caps. Operational Risk is managed under the guidance of Operational Risk Committee (ORCO) at the management level. Risk & Control Committee comprising of heads of Risk, Compliance and Audit is constituted to examine various critical events of risks that have surfaced and deliberate on weaknesses and suggest improvements in control, if required.

A separate ALCO has also been established to monitor the performance of the assets of Islamic banking services.

D1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, In simpler terms, it represents the probability of default by any counterparty in repayment of principal obligations and / or servicing interest obligations in accordance with the set redemption schedule or terms of contract.

D1.1 Management of credit risk

The Board of Directors has delegated responsibility for the monitoring of credit risk to its Risk Management Committee of the Board and is responsible for handling all facets of risk for both Islamic and conventional banking division. The Bank has a Chief Risk Officer who heads the management of Risk reporting to the Risk Management Committee. Credit risk is managed by the following:

- setting up risk limits and boundaries, within the regulatory guidelines, for risk origination to be within the approved risk appetite of the Bank;
- Credit risk at the origination is managed and controlled through a time tested credit appraisal process which includes independent credit risk review of individual corporate credit proposals and through a Board approved Retail products policy and template lending. Exceptions are reviewed by Credit Risk function.
- continuous monitoring of these stand-alone credit risks in the 'corporate' and 'emerging corporate' portfolio as well as in the retail credit portfolio through an independent loan review group (LRG), reporting to head of risk, for risk grading of the portfolios and tracking the movement of the grades;
- portfolio credit risk measurement through tracking on the set portfolio risk parameters such as concentration risk;
- the Bank will not entertain credit proposals from entities/individuals, whose name appears in the CBO classified list under Bank Credit and Statistical Bureau (BCSB) . However, in exceptional cases in the retail business unit, loans are approved, with strong justifications and risk mitigations for considering any such proposals, and then these have to be referred to delegated authorities, as per the retail loan policy;
- limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, market liquidity and country (for investment securities);

D Financial risk management (continued)

D1 Credit risk (continued)

D1.1 Management of credit risk

- developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of
- financial loss faced and to focus management on the attendant risks; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank follows a risk mitigation practice of identifying business cash flows as the primary driver for the advances extended. These cash flows are then tested for sustainability over the tenor of the credit facility and a suitable mechanism is put in place to capture the same into the client account with the Bank. To cover unforeseen risk, which dries up the cash flows, additional tangible securities are taken such as real estate or equity shares. The Bank implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for loans and advances are:

- mortgages over properties;
- charges of assets under murabaha agreements
- ownership/title of assets under Ijarah financing
- charges over business assets such as premises inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

All loans and advances of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful and Loss – as stipulated by CBO regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.

D2 Liquidity risk

D2.1 Exposure to liquidity risk

The table below summarises the maturity profile of the Bank's liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

	Carrying amount	**Gross Nominal Outflow**	**Within 3 months**	**3 - 12 months**	**Over 1 year**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
30 September 2015					
Non- derivative liabilities					
Due to banks and other money market borrowings	**326,539**	**331,412**	**95,585**	**96,574**	**139,253**
Customers' deposits	**1,564,916**	**1,655,320**	**1,270,978**	**251,041**	**133,302**
Other liabilities	**33,629**	**33,629**	**33,629**	**-**	**-**
Subordinated loans	**50,415**	**59,764**	**1,603**	**1,603**	**56,558**
Compulsorily convertible bonds	**7,288**	**7,794**	**-**	**2,706**	**5,088**
Total	**1,982,787**	**2,087,919**	**1,401,795**	**351,924**	**334,201**

	Carrying amount	Gross Nominal Outflow	Within 3 months	3 - 12 months	Over 1 year
	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2014					
Non - derivative liabilities					
Due to banks and other money market borrowings	244,004	246,071	82,196	66,294	97,581
Customers' deposits	1,551,696	1,719,765	938,465	602,607	178,693
Other liabilities	29,180	38,803	38,803	-	-
Subordinated loans	51,232	59,764	1,603	1,603	56,558
Compulsorily convertible bonds	7,207	7,955	-	322	7,633
Total	1,883,319	2,072,358	1,061,067	670,826	340,465

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2015 (continued)

D Financial risk management (continued)

D3 Market risk

D3.1 Exposure to interest rate risk – non trading portfolios (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 30 Sep 2015 was as follows:

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non-sensitive to interest rate RO'000	Total RO'000
30 September 2015						
Assets						
Cash and balances with Central Bank	0.01	-	-	-	73,641	73,641
Due from banks and other money market placements	0.94	100,021	23,129	-	9,139	132,289
Loans, advances and financing (net)	4.62	609,194	358,305	699,306	3,451	1,670,256
Investment securities	1.25	182,390	13,464	71,159	41,995	309,008
Property, equipment and fixtures	-	-	-	-	13,270	13,270
Investment properties	-	-	-	-	2,900	2,900
Other assets	-	-	-	-	25,350	25,350
Total assets		891,605	394,898	770,465	169,746	2,226,714
Liabilities and equity						
Due to banks and other money market borrowings	0.64	227,404	95,985	-	3,150	326,539
Customers' deposits	1.19	396,812	223,115	102,378	842,611	1,564,916
Other liabilities	-	-	-	-	33,629	33,629
Subordinated loans	6.50	-	-	50,000	415	50,415
Compulsorily Convertible bonds	4.50	-	2,383	4,767	138	7,288
Shareholders' funds	-	-	-	-	243,927	243,927
Total liabilities and equity		624,216	321,483	157,145	1,123,870	2,226,714
Total interest rate sensitivity gap		267,389	73,415	613,320	(954,124)	-
Cumulative interest rate sensitivity gap		267,389	340,804	954,124	-	-

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2015 (continued)

D Financial risk management (continued)

D3 Market risk (continued)

D3.3 Exposure to interest rate risk – non trading portfolios (continued)

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non-sensitive to interest rate RO'000	Total RO'000
31 December 2014						
Assets						
Cash and balances with Central Bank	0.01	7	-	-	218,677	218,684
Due from banks and other money market placements	1.95	148,587	4,462	-	513	153,562
Loans, advances and financing (net)	4.96	622,210	194,837	606,230	-	1,423,277
Investment securities	0.88	183,901	22,299	6,098	28,214	240,512
Property, equipment and fixtures	-	-	-	-	12,804	12,804
Investment properties	-	-	-	-	2,900	2,900
Other assets	-	268	-	-	23,388	23,656
Total assets		954,973	221,598	612,328	286,496	2,075,395
Liabilities and equity						
Due to banks and other money market borrowings	0.69	178,463	65,488	-	53	244,004
Customers' deposits	1.40	180,139	457,221	173,451	740,885	1,551,696
Other liabilities	-	-	-	-	29,180	29,180
Subordinated loans	6.50	-	-	50,000	1,232	51,232
Compulsorily convertible bonds	4.50	-	-	7,150	57	7,207
Shareholders' funds		-	-	-	192,076	192,076
Total liabilities and equity		358,602	522,709	230,601	963,483	2,075,395
Total interest rate sensitivity gap		596,371	(301,111)	381,727	(676,987)	-
Cumulative interest rate sensitivity gap		596,371	295,260	676,987	-	-

D Financial risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Bank had the following net exposures denominated in foreign currencies:

	30 September 2015			31 December 2014		
	Assets FCY' 000	**Liabilities FCY' 000**	**Net (liabilities)/assets FCY' 000**	Assets FCY' 000	Liabilities FCY' 000	Net (liabilities)/assets FCY' 000
US Dollars	**1,776,409**	**1,925,089**	**(148,680)**	1,352,854	1,434,705	(81,851)
Pound Sterling	**2,642**	**3,096**	**(455)**	3,214	3,183	31
Euro	**80,587**	**80,751**	**(165)**	117,573	117,610	(37)
Japanese Yen	**7,165,400**	**7,152,056**	**13,344**	11,247,823	11,248,262	(439)
UAE Dirhams	**17,175**	**67,982**	**(50,807)**	16,562	35,832	(19,270)
Indian Rupee	**10,108**	**50**	**10,058**	17,776	48	17,728
Other currencies (in RO'000)			**1,413**			640

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2015 (continued)

D5 Capital management

D5.1 Regulatory capital

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

	30 September 2015	31 December 2014
	RO'000	RO'000
Tier I capital		
Ordinary share capital	**144,144**	114,400
Share Premium	**16,702**	-
Legal reserve	**13,815**	13,815
General reserve	**988**	988
Subordinated loan reserve	**24,167**	24,167
Retained earnings	**53,696**	39,268
Fair value losses	**(9,721)**	(5,249)
Deferred tax asset	**(11)**	(4)
Total	**243,780**	187,385
Tier 2 capital		
Impairment allowance on portfolio basis	**20,795**	18,543
Fair value gains	**61**	48
Subordinated loan	**25,833**	25,833
Compulsorily convertible bonds	**7,150**	7,150
Total	**53,839**	51,574
Total regulatory capital	**297,619**	238,959
Risk-weighted assets		
Credit and market risks	**2,026,219**	1,726,345
Operational risk	**103,675**	104,214
Total risk-weighted assets	**2,129,894**	1,830,559
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**13.97%**	13.05%
Total tier I capital expressed as a percentage of total risk-weighted assets	**11.45%**	10.24%

The capital adequacy ratio is calculated in accordance with the Basel II norms as adopted by CBO. Disclosures required under Basel III and circular BM-1114 dated 17 November 2013 issued by Central Bank of Oman is available at investor relations section of the Bank's website.

E Segmental information

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into six operating segments based on products and services as follows:

- Wholesale banking includes loans and deposits including current accounts, term deposit etc. for corporate and Trade finance customers, international companies, institutional and government relationships.
- Retail banking includes deposits from retail customers, consumer loans, overdrafts, credit card and fund transfer facilities.
- Investments & FIG include proprietary investments, correspondent banking and credit exposure to international banks.
- Treasury includes the treasury function of the bank.
- Head office includes the pool of resources considered for transfer pricing and absorbs the cost of impairment loss on portfolio basis and income tax expense.
- Islamic banking includes Islamic financing activities, current accounts, unrestricted investment accounts and other products and services to corporate and individual customers under Sharia principles.

The CEO monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a Bank basis and are not allocated to operating segments.

Interest income is reported net as the CEO primarily relies on net interest income as a performance measure, not the gross income and expense.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2015 or 2014.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2015 (continued)

E Segmental information (continued)

30 September 2015

	Retail banking RO'000	*Wholesale banking RO'000*	*Investments / FIG* RO'000*	*Treasury RO'000*	*Head Office RO'000*	*Islamic banking RO'000*	*Total RO'000*
Income Statement							
Net interest income	17,167	20,073	413	793	(1,730)	-	36,716
Other operating income	2,873	8,068	2,433	1,778	(1,638)	600	14,114
Net income from Islamic financing	-	-	-	-	-	1,611	1,611
Operating Income	20,040	28,141	2,846	2,571	(3,368)	2,211	52,441
Operating expenses	(14,132)	(6,303)	(1,372)	(1,332)	-	(1,649)	(24,788)
Operating profit/(loss)	5,908	21,838	1,474	1,239	(3,368)	562	27,653
Impairment on investments	-	-	-	-	-	-	-
Impairment allowance on portfolio basis	-	-	-	-	(2,087)	(166)	(2,253)
Specific Provisions	(1,206)	(174)	-	-	-	-	(1,380)
Segment profit/(loss) for the period	4,702	21,664	1,474	1,239	(5,455)	396	24,020
Income tax expense	-	-	-	-	(2,728)	-	(2,728)
Net profit for the period	4,702	21,664	1,474	1,239	(8,183)	396	21,292

30 September 2015

	Retail banking RO'000	*Wholesale banking RO'000*	*Investments / FIG* RO'000*	*Treasury RO'000*	*Head Office RO'000*	*Islamic banking RO'000*	*Total RO'000*
Balance Sheet							
Assets							
Cash and balances with Central Bank	-	-	-	-	61,145	12,496	73,641
Due from Banks and other money market placements	-	-	8,440	120,629	-	3,220	132,289
Loans and advances (net)	488,839	1,120,645	-	-	-	60,772	1,670,256
Available-for-sale investments	-	-	23,263	276,408	-	9,337	309,008
Property, equipment and fixture	-	-	-	-	11,820	1,450	13,270
Other assets	-	-	-	-	24,927	423	25,350
Investment properties	-	-	-	-	2,900	-	2,900
	488,839	1,120,645	31,703	397,037	100,792	87,698	2,226,714
Liabilities							
Due to Banks and other money market deposits	-	-	-	304,836	-	21,703	326,539
Customers' deposits	278,745	1,221,041	14,494	-	-	50,636	1,564,916
Other liabilities	-	-	-	-	30,464	3,165	33,629
Compulsorily convertible bonds	-	-	-	-	7,288	-	7,288
Subordinated loans	-	-	-	-	50,415	-	50,415
Shareholder's Equity	-	-	-	-	231,396	12,531	243,927
	278,745	1,221,041	14,494	304,836	319,563	88,035	2,226,714

* FIG stands for Financial Institution Group

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2015 (continued)

E Segment information (continued)

30 September 2014

	Retail banking RO'000	*Wholesale banking RO'000*	*Investments / FIG* RO'000*	*Treasury RO'000*	*Head Office RO'000*	*Islamic banking RO'000*	*Total RO'000*
Income Statement							
Net interest income	17,393	18,343	(122)	2,476	(2,665)	-	35,425
Other operating income	4,352	6,189	5,574	1,563	(1,360)	307	16,625
Net income from Islamic financing	-	-	-	-	-	1,212	1,212
Operating Income	21,745	24,532	5,452	4,039	(4,025)	1,519	53,262
Operating expenses	(13,166)	(5,731)	(1,321)	(1,216)	-	(1,438)	(22,872)
Operating profit/(loss)	8,579	18,801	4,131	2,823	(4,025)	81	30,390
Impairment on investments	-	-	-	-	-	-	-
Impairment allowance on portfolio basis	-	-	-	-	(1,833)	(319)	(2,152)
Specific Provisions	(1,508)	(227)	-	-	-	-	(1,735)
Segment profit/(loss) for the period	7,071	18,574	4,131	2,823	(5,858)	(238)	26,503
Income tax expense	-	-	-	-	(2,754)	-	(2,754)
Net profit for the period	7,071	18,574	4,131	2,823	(8,612)	(238)	23,749

31 December 2014

	Retail banking RO'000	*Wholesale banking RO'000*	*Investments / FIG* RO'000*	*Treasury RO'000*	*Head Office RO'000*	*Islamic banking RO'000*	*Total RO'000*
Balance Sheet							
Assets							
Cash and balances with Central Bank	-	-	-	-	214,095	4,589	218,684
Due from Banks and other money market placements	-	-	44,559	96,940	-	12,063	153,562
Loans and advances (net)	471,205	914,192	-	-	-	37,880	1,423,277
Available-for-sale investments	-	-	6,288	225,192	-	9,032	240,512
Property, equipment and fixture	-	-	-	-	11,171	1,633	12,804
Other assets	-	-	-	-	23,035	621	23,656
Investment properties	-	-	-	-	2,900	-	2,900
	471,205	914,192	50,847	322,132	251,201	65,818	2,075,395
Liabilities							
Due to Banks and other money market deposits	-	-	-	226,327	-	17,677	244,004
Customers' deposits	271,232	1,237,713	6,005	-	-	36,746	1,551,696
Other liabilities	-	-	-	-	27,919	1,261	29,180
Compulsorily convertible bonds	-	-	-	-	7,207	-	7,207
Subordinated loans	-	-	-	-	51,232	-	51,232
Shareholder's Equity	-	-	-	-	181,942	10,134	192,076
	271,232	1,237,713	6,005	226,327	268,300	65,818	2,075,395

* FIG stands for Financial Institution Group